REPORT OF

ASSOCIATION FINANCIAL EXAMINATION

INTERLEX INSURANCE COMPANY

AS OF

DECEMBER 31, 2002

STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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Springfield, Missouri
September 23, 2004

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Insurance
Chairman, (E) Financial Condition Committee

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Midwestern Zone Secretary

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentleman:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Interlex Insurance Company

hereinafter referred to as such, as the "Company" or as "Interlex". Its administrative office is located at 1343 East Kingsley, Suite G, Springfield, Missouri 65804, telephone number (417) 889-1010. This examination began on August 11, 2003, on-site fieldwork concluded on November 13, 2003, and finalization concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Interlex Insurance Company was made as of December 31, 1999, and was conducted by examiners from the

State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination of the Company covers the period from January 1, 2000, through December 31, 2002, and has been conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination was conducted concurrently with the examination of the Company's parent, Intermed Insurance Company (Intermed).

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners relied upon information and workpapers provided by the Florida Office of Insurance Regulation (FOIR) and its consulting actuary, Mark J. Sobel, FCAS, MAAA of Financial Risk Analysis, LLC. for the FOIR's examination of the Company's parent, First Professionals Insurance Company (FPIC), covering the period January 1, 1999 through December 31, 2002. The information relied upon included, but was not limited to, testing and analysis of loss and LAE reserves, unearned premium reserves, and other amounts pooled under the intercompany reinsurance pooling agreement to which the Company is a party. The Florida Office of Insurance Regulations issued their report on FPIC February 6, 2004, and the report was made public on July 1, 2004. The FPIC workpapers and corresponding actuarial report were made available to the Missouri examiners on July 30, 2004.

In addition, the examiners relied upon information and workpapers supplied by the Company's independent auditors, PricewaterhouseCoopers LLP, of St. Louis, Missouri for its audit covering the period from January 1, 2002, through December 31, 2002. Information relied upon included tests of controls, and narrative descriptions of processes and controls.

<u>Comments-Previous Examination</u>

Listed below are comments and recommendations of the previous examination report dated as of December 31, 1999, and the subsequent response or action taken by the Company.

Capital Stock

Comment: Pursuant to an amendment to the Company's Articles of Incorporation, the par value of the share of capital was increased to $1.50. However, the stock certificate underlying the shares was not changed to reflect the new par value. In addition, the stock certificate had not been updated to reflect the change in name of the Company's sole shareholder from RCA Mutual Insurance Company to Intermed Insurance Company. The Company was advised to issue a new stock certificate that was accurate and reflective of current information.

Company's Response: The Company acknowledged the necessity to modify the underlying certificate.

Current Findings: The Company's stock certificate has been changed to reflect the par value per the amended Articles of Incorporation and to reflect the new name of the sole shareholder.

Conflict of Interest

Comment: None of the directors and officers completed a conflict of interest disclosure statement in 1999. The Company should ensure all members of the board of directors and officers of the Company complete a conflict of interest statement annually.

Company's Response: The Company acknowledged the necessity to have its directors and officers document their understanding of the Company's conflict of interest policy by completing a conflict of interest disclosure form annually.

Current Findings: Conflict of interest statements were not completed by the Company's directors or officers for any of the years under examination. See the Conflict of Interest section of this report for recommendations.

Corporate Records

Comment: The board of directors did not discuss or approve the last financial examination report of the Company by the Missouri Department of Insurance. The Company was directed to ensure that board members review the MDI financial examination reports and that this process be reflected in the board meeting minutes.

Company's Response: The Company acknowledged the necessity to have its board of directors document review of state financial examinations by noting the review in the minutes of the board of directors meetings.

Current Findings: The MDI financial examination report as of December 31, 1999, was discussed and approved in the May 23, 2002, board of directors meeting minutes.

Intercompany Transactions

Comment: Intermed is paying for all the expenses incurred on behalf of Intermed and Interlex by Insurance Services, Inc. (ISI) and then receiving reimbursement from Interlex, contrary to the terms of the management contract which stipulates that each company should pay ISI for its share of the costs incurred. Furthermore, Interlex is reimbursing Intermed for its share of the costs covered by the management contract as if the agreement is between Intermed and Interlex. The Company was directed to either operate in accordance with the terms of the agreement or amend the terms and file the amendment with the MDI.

Company's Response: The Company acknowledged that some of its intercompany transactions are not immediately settled in order to both maximize operating efficiency and satisfy investment considerations. However, all transactions were settled on at least a quarterly basis, and all transactions were between wholly owned affiliated group members. The Company indicated it would review its management agreements and modify any provisions that needed to be amended to coincide with operations. Any amendments to the management agreements would be submitted to the MDI for approval.

Current Findings: Intermed is still paying ISI for all expenses incurred on behalf of both Intermed and Interlex and being reimbursed by Interlex on a quarterly basis. The management contract has not been amended to reflect this arrangement. See the Intercompany Transactions section of this report for recommendations.

Comment: The current consolidated income tax agreement, which became effective in 1999, by and between FPIC Insurance Group, Inc. (FIG) and its subsidiaries, has not been filed with the MDI in accordance with Section 382.195 RSMo, (Transactions within a holding company system). The Company was directed to file this agreement with the MDI for approval.

Company's Response: The Company indicated it would review its management agreements and modify any provisions that needed to be amended to coincide with operations. The Company further acknowledged that any amendments to its management agreements would be submitted to the MDI for approval.

Current Findings: The Company filed the consolidated income tax agreement with the MDI; however, the filing was returned to the Company by the MDI because Interlex was not a named party to the agreement. Since Interlex is included in the consolidated tax return of the FIG, it appears the agreement should be amended to clearly indicate Interlex is a party. The agreement should then be refiled with the MDI. See the Intercompany Transactions section of this report for recommendations.

Comment: FPIC Insurance Group, Inc. is providing some services, and shares costs with the Company for the following functions without a written agreement: auditing, actuarial and investment services, etc. The Company should reduce this arrangement into a written agreement and file the agreement with the MDI for approval.

Company's Response: The services and cost sharing items referred to in the examination report relating to FIG were primarily billing and tracking conveniences for various vendors whereby invoices for similar services were sent to the home office and then forwarded to the individual subsidiaries for payment. The Company indicated it would review its management agreements and modify any provisions that needed to be amended to coincide with operations. The Company further acknowledged that any amendments to any of its management agreements would be submitted to the MDI for approval.

Current Findings: FIG continues to provide services and share certain costs with the Company without an underlying agreement. See the Intercompany Transactions Section of this report for recommendations.

Insurance Products and Related Practices

Comments: Review of the Company's agency files noted many instances where an appointed agent did not sign an agency agreement. The Company should ensure that all agents sign an agency agreement.

Company's Response: The Company had signed agency agreements with all agencies with which the Company did business. Such agencies were required to send the Company a list of all employed agents who might place business with it under such agreements. An individual agent who was an employee of such an agency was not required to separately sign an agent agreement.

Current Findings: The Company has signed agent agreements with the agencies with which it does business.

Comments: Under the commission section of the agency agreement, a separate commissions schedule is required to be issued to, and signed by all agents, appointed by the Company. Review of the agency files and the related commissions account did not indicate that the Company is following this procedure. The Company was directed to ensure that commissions paid to agents are clearly noted in an agreement signed by the Company and the agent.

Company's Response: Commission schedules were provided to agencies monthly. The Company's agent agreement did not require that all appointed agents sign a commission schedule.

Current Finding: The Company is providing commission schedules to its agents in accordance with its agent agreements.

Accounts and Records

Comments: The Company violated Missouri Regulation 20 CSR 200-4.010 (4) (Time Limits) which stipulates that an insurer shall provide, within five (5) working days, any records requested by financial examiners during on-site financial examination. The Company was directed to abide by this Regulation during future examinations.

Company's Response: The Company acknowledged that Missouri Regulation 20 CSR 200-4.010 (4) requires insurers to provide examiners with any records requested during an on-site examination within five working days of receipt of the request. The Company further acknowledged that there were requests for information from the on-site examiners that were not fully responded to in the five day time frame. The Company noted that its personnel were working diligently to complete all state and federal filing requirements for the 2000 reporting year during the same time period the 1999 on-site examination was taking place and, unfortunately, despite good faith efforts, were not able to fully comply with the five day time frame. The Company indicated it would continue to make every effort to provide the MDI with timely responses for any and all information requests.

Current Findings: Company personnel responded to requests for information made by the MDI examiners during the current on-site examination timely and efficiently.

Information Systems Environment

Comment: To ensure that data backup processes are protecting critical data as intended, the Company should more regularly perform restoration procedures. A summary of data file backup procedures should be maintained, and a copy, along with a list of replacement hardware and contact information for related hardware and software vendors should be stored off-site.

Company's Response: The Company acknowledged the importance of sound data backup and restoration procedures. The Company indicated it ran nightly backup files that were maintained offsite and data restoration procedures were performed periodically. In addition, the Company indicated it was currently in the process of documenting all of its data file backup procedures including lists of replacement hardware and contact information for all hardware and software vendors. Copies of this documentation would be maintained offsite.

Current Findings: The Company has implemented procedures to ensure backup processes are adequate.

Reinsurance Recoverable on Loss and Loss Adjustment Expense

Comment: The balance in this account represents an examination reclassification for an amount incorrectly reported by the Company as a receivable from parent, subsidiaries and affiliates. The account balance originated from transactions arising out of the intercompany reinsurance pooling agreement, and therefore, should have been reported under the appropriate lines of the Annual Statement related to reinsurance activities. The Company was advised to correctly report transactions in the appropriate lines of the Annual Statement.

Company's Response: The Company acknowledged the amounts relating to its intercompany reinsurance pooling agreement were incorrectly classified as intercompany balances as of December 31, 1999. The Company indicated it had since properly recorded these amounts to the proper reinsurance accounts in its regulatory filings and would continue to do so in the future.

Current Findings: Amounts were properly classified to the correct Annual Statement lines.

Loss Reserves

Comment: The reserve for losses account was increased by $312,000 based on the determination of reserve deficiency by the MDI consulting actuaries. The Company was directed to improve its loss reserving procedures to reduce the significance of adverse loss developments in the future.

Company Response: The Company concurred with its own opining actuary's determination and with the MDI's consulting actuary's determination that the Company's reserves were within a reasonable range at December 31, 1999, and at December 31, 2000. The Company also agreed that its reserves were not established at exactly the same level as the point estimate arrived at by the MDI's consulting actuary; however, the Company noted that an actuarial point estimate is not necessarily or automatically the best estimate of reserves but is simply another estimate within a range of reasonable estimates in which no amount is significantly better than any other amount within the range. The Company further noted that it will continue to work very closely with its actuaries in determining the best estimate of reserves.

Current Finding: The FOIR consulting actuary found that there were reserve deficiencies within the reinsurance pool in which Interlex is a participant. However, based on the FOIR consulting actuary estimates, it was determined that the reserves established by Interlex on a post-pooled basis were deficient by an immaterial amount. See the Accounts and Records Section of this report for recommendations.

Payable to Parent, Subsidiaries and Affiliates

Comment: Payable to parent, subsidiaries and affiliates account was increased to reflect the Company's share of liabilities reported on the books of ISI which would ultimately be paid by Interlex. Since all liabilities incurred by ISI become allocable to Intermed and Interlex, the Company should report its allocated share of such obligations in its quarterly and year-end statements.

Company's Response: The Company acknowledged that liabilities of ISI were ultimately paid by Intermed and/or Interlex, and that it was appropriate to transfer these liabilities out of the management company and to the insurance companies. The Company noted that beginning in 2001, the liabilities of ISI were transferred and going forward, the Company would continue to follow this procedure.

Current Findings: The liabilities of ISI were properly included in the amounts reported on the Company's Annual Statement.

Subsequent Events

Comments: An actuarial review of the reserve for losses conducted by the MDI consulting actuary as of December 31, 2000, indicated material reserve deficiencies. The

Company was directed to implement procedures that accurately consider all the applicable factors in estimating loss reserves and that the reserves of its appointed actuary are reported.

Company's Response: The Company concurred with its own opining actuary's determination and with the MDI's consulting actuary's determination that the Company's reserves were within a reasonable range at December 31, 1999, and at December 31, 2000. The Company also agreed that its reserves were not established at exactly the same level as the point estimate arrived at by the MDI's consulting actuary; however, the Company noted that an actuarial point estimate is not necessarily or automatically the best estimate of reserves but is simply another estimate within a range of reasonable estimates in which no amount is significantly better than any other amount within the range. The Company further noted that it will continue to work very closely with its actuaries in determining the best estimate of reserves.

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HISTORY

General

Interlex Insurance Company was formed in April 1994, from the merger of two wholly owned subsidiaries of Intermed Insurance Company (Intermed). Insurance Risks Ltd., a Virgin Island corporation, was merged with Springfield Casualty Company, the surviving entity, whose name was changed to Interlex Insurance Company. Interlex is a wholly owned subsidiary of Intermed which in turn is wholly owned by Tenere Group, Inc. (Tenere).

Effective March 17, 1999, Florida Physicians Insurance Company, Inc., an insurance company domiciled in the State of Florida and a subsidiary of FPIC Insurance Group, Inc. (FIG) purchased the common stock of Tenere. Consequently, FIG became

Interlex's ultimate controlling entity. In 2001, Florida Physicians changed its name to First Professionals Insurance Company, Inc. (FPIC).

Capital Stock

Interlex is one hundred percent owned by Intermed. As of December 31, 2002, the Company had authority to issue 800,000 shares of $1.50 par value common stock. All of the 800,000 shares were issued and outstanding for a balance of $1,200,000 in the Company's capital stock account at December 31, 2002.

Dividends

The Company did not declare or pay any dividends during the period under examination.

Management

The management of the Company is vested in a board of directors that are appointed by the sole shareholder. The Company's Articles of Incorporation specify that the number of directors shall be nine, but that number may be changed upon resolution of the board of directors to not less than nine nor more than thirteen directors. The directors of Interlex Insurance Company elected and serving as of December 31, 2002, were as follows:

Name and Address	Business Affiliation
Andrew K. Bennett Springfield, Missouri	President and Chief Executive Officer Interlex Insurance Company
Peter F. Spataro St. Louis, Missouri	Attorney Moser & Marsalek, P.C.
Clifton R. Stepp Nixa, Missouri	Chief Operating Officer Interlex Insurance Company

James M. Shaffer Kansas City, Missouri	Attorney Shaffer, Lombardo & Shurin, P.C.
Lloyd J. Carmichael Springfield, Missouri	Attorney Carmichael, Gardner & Clark, P.C.
Steven W. White Kansas City, Missouri	Attorney White, Allinder & Graham, L.L.C.
Robert A. Wulff Chesterfield, Missouri	Attorney Amelung, Wulff & Willenbrock, P.C.
Nancy R. Mogab Nixa, Missouri	Attorney Mogab & Hughes Attys., P.C.
Daniel K. Carter Nixa, Missouri	Director of Marketing Interlex Insurance Company

In February and March of 2003, all but three of the directors (Peter Spataro, Clifton Stepp and Robert Wulff) were removed or resigned and were replaced with individuals affiliated with FPIC. In July of 2003, Clifton Stepp resigned and was replaced by the President of FPIC. The new directors appointed in 2003 were as follows:

Name and Address	Business Affiliation
Cynthia K. Stark Nixa, Missouri	Vice President of Claims Interlex Insurance Company
Kim D. Thorpe Jacksonville, Florida	Executive Vice President/ Chief Operating Officer FPIC Insurance Group, Inc.
Charles Divita, III Jacksonville, Florida	President & Chief Operating Officer Employers Mutual, Inc.
Robert E. White, Jr. Jacksonville, Florida	President First Professionals Insurance Company, Inc.
Roberta Goes Cown Jacksonville Beach, Florida	Senior Vice President/Corporate Counsel FPIC Insurance Group, Inc.

Joseph W.Mawhinney Orange Park, Florida	Senior Vice President First Professionals Insurance Company, Inc.
Louis V. Sicilian II St. Augustine, Florida	Senior Vice President First Professionals Insurance Company, Inc.

The Company's Bylaws provide that the board of directors may appoint an executive committee and any other committee for the purpose of addressing special concerns and affairs of the Company. During 2002, the board of directors established the following committees:

Claims Committee	**Underwriting Committee**	**Finance & Audit Committee**
Andrew K. Bennett	Andrew K. Bennett	Andrew K. Bennett
Clifton R. Stepp	Clifton R. Stepp	Clifton R. Stepp
Cynthia K. Stark		Samuel J. Pippin

The board of directors meeting minutes for 2003 do not denote the establishment or dissolution of any committees. However, most of the directors appointed to the above committees resigned or were removed as directors subsequent to the establishment of the committees. Upon their removal or resignation as directors, these individuals also ceased to be members of the committees.

The board of directors elects a President, one or more Vice Presidents, a Treasurer, a Secretary and other officers as deemed necessary. Officers elected and serving as of December 31, 2002, were as follows:

Name	**Title**
Andrew K. Bennett	President and Chief Executive Officer
Steven W. White	Vice President
Kim D. Thorpe	Vice President
Nancy R. Mogab	Treasurer
Lloyd J. Carmichael	Secretary
Samuel J. Pippin	Assistant Treasurer
Julie D. Wolfe	Assistant Secretary

Roberta Goes Cown	Assistant Secretary
Peggy A. Parks	Assistant Secretary

On March 3, 2003, several changes were made to the list of officers serving as of December 31, 2002. The number of Vice Presidents was reduced from two to one and the Assistant Treasurer and one of the Assistant Secretary offices were eliminated. All of the officers as of December 31, 2003, were removed or resigned with the exception of Kim D. Thorpe, as Vice President. New officers were elected as follows:

Name	**Title**
Robert E. White, Jr.	President
Kim D. Thorpe	Vice President
Roberta Goes Cown	Treasurer/Secretary
Peggy A. Parks	Assistant Secretary

Conflict of Interest

The Company has a formal written conflict of interest policy which defines potential conflicts of interest. Statements of conflict of interest were completed by the Company's officers and directors for 2003; however, statements of conflicts of interest were not completed by the Company's directors and officers for any of the years under examination. The Company is advised to ensure that all directors and officers complete a statement of conflicts of interest annually.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company. No amendments were made to the Articles of Incorporation or Bylaws during the period under examination.

The minutes of the Company's board of directors meetings were reviewed and, in general, appear to properly reflect and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

The Company entered into an agreement dated October 3, 2002, to sell its legal professional liability operations to Professionals Direct Insurance Services, Inc., a Michigan insurance company, for $441,428 in cash. In accordance with the agreement, Interlex stopped issuing new or renewal policies effective December 1, 2002. Interlex continued to earn premium on policies in force at December 1, 2002, through their various expiration dates. The Company's last active policy expired on November 23, 2003. In an accompanying non-competition agreement, the Company and its affiliates agreed not to market lawyers liability insurance in Missouri and Kansas for the period October 3, 2002, through December 31, 2005.

Company management has indicated that for the short-term, the Company will continue to manage its assets and liabilities as it has in prior years, which includes continuing to be a participant in the FPIC Insurance Group intercompany pooling agreement. However, given the expiration of the Company's active policies and the non-competition agreement in effect, there are questions as to the long-term future of the Company. The Company should develop a long-term business plan and submit the plan to the MDI upon completion.

Surplus Debentures

There were no surplus debentures issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

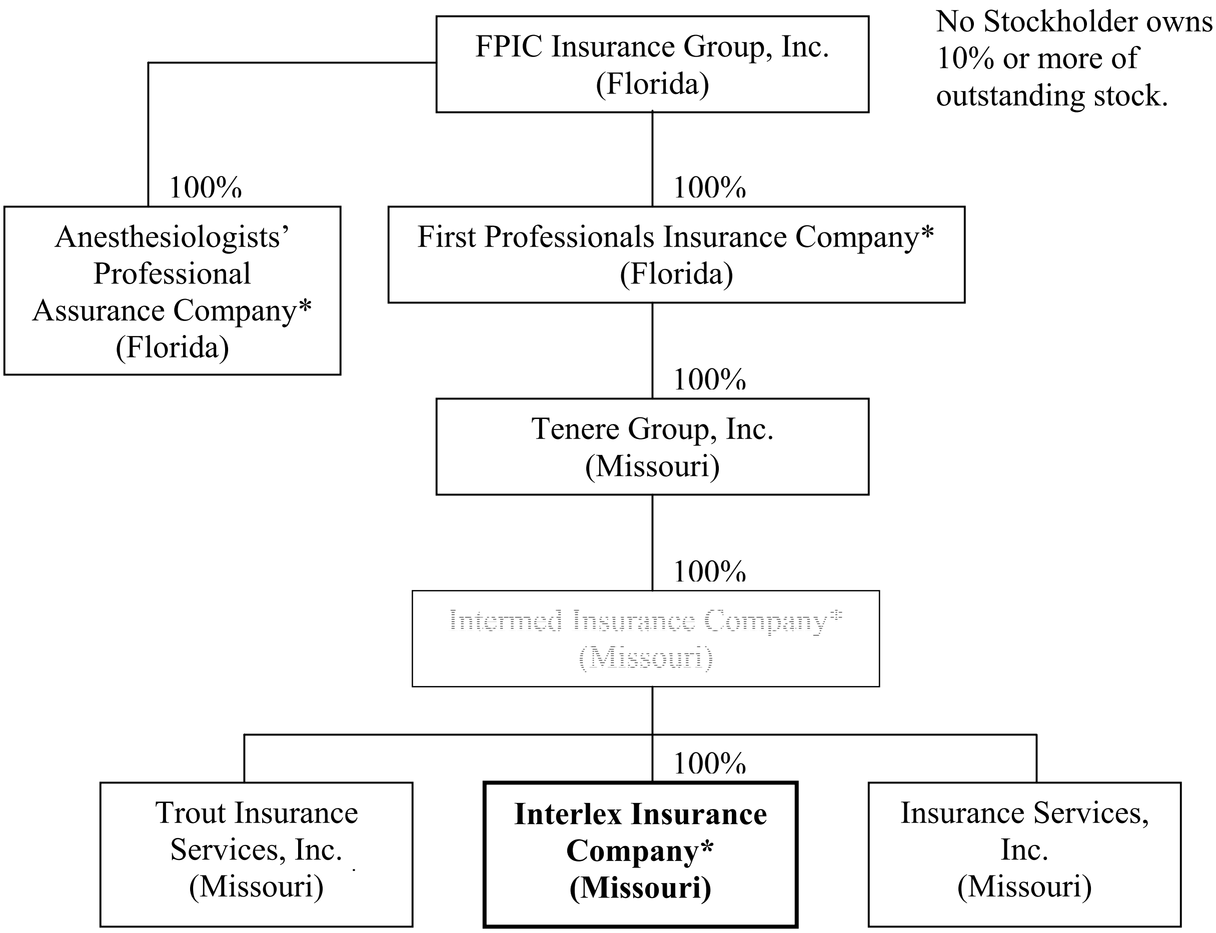
Interlex is a member of an insurance holding company system as defined by Section 382.010 RSMo, (Definitions). Interlex is a wholly owned subsidiary of Intermed Insurance Company. During the examination period, consolidated Insurance Holding Company Registration Statements were filed by Intermed on behalf of itself and its wholly owned subsidiary, Interlex Insurance Company.

Intermed Insurance Company is a wholly owned subsidiary of Tenere Group, Inc., (Tenere), which in turn is wholly owned by First Professionals Insurance Company (FPIC). FPIC in turn is wholly owned by FPIC Insurance Group, Inc. (FIG) which is the ultimate controlling entity within the holding company system.

FPIC Insurance Group, Inc. is a Florida holding company with various wholly owned insurer and non-insurer subsidiaries. FIG was formed in 1996 in connection with a reorganization pursuant to which it became the parent company of FPIC. FIG's three significant industry segments are insurance (primarily medical professional liability insurance), third party administration services and reciprocal management. FIG's shares are publicly traded on the NASDAQ system.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group, including Interlex as of December 31, 2002:



* These companies are participants in the reinsurance pooling agreement.

Intercompany Transactions

Interlex has entered into the following intercompany agreements:

1. Type: Management Contract

   Parties: Intermed Insurance Company, Interlex Insurance Company, Tenere Group, Inc. (collectively known as the Companies) and Insurance Services, Inc.

Effective: August 19, 1998, and shall remain in effect through August 18, 2008. Thereafter, the term will be automatically extended for successive one-year periods.

Terms: The Companies agree to employ ISI to take charge of the operations of the Companies and to have full authority and responsibility, subject to the general direction of the board of directors of the Companies, for formulating policies and administering the affairs of the Companies in all respects. Management of the Companies shall include, but not be limited to: arranging for actuarial services for the purpose of determining rates, providing claims management services, providing underwriting services, providing risk management facilities and services, providing complete accounting services, advising and acting as a consultant in the investment of funds and performance of all other acts and duties normally associated with the management of an insurance company.

The Company shall pay ISI for the contracted services as follows: 1) actual, identifiable expenses shall be paid when incurred and 2) unidentifiable expenses shall be paid quarterly. ISI is charged with the responsibility of identifying and allocating unidentifiable expenses. Unidentifiable expenses shall be paid by allocating a percentage thereof to Intermed and Interlex based on the following formula: direct written premium of each company divided by total direct written premiums of both companies. However, neither company shall pay less than five percent. Any expenses incurred by Tenere relating to Intermed or Interlex shall be allocated to the affected party.

Exception: Intermed is paying for all the expenses incurred on behalf of the Companies by ISI and then receiving reimbursements from Interlex, contrary to the terms of the agreement. Current practice is that all outlays of ISI are drawn from the operating bank account of Intermed as ISI does not have any independent resources. As a result, Intermed is paying for Interlex's unidentifiable expenses as they are incurred only to be reimbursed on a quarterly basis. The payment of Interlex's unidentifiable expenses as incurred is inconsistent with the terms of the agreement and the amount that is paid could be construed as an intercompany loan from Intermed to Interlex before the quarterly settlement. The Company is directed to either operate in accordance with the terms of the agreement or amend the terms and file the amendment with the MDI.

2. Type: Tax Allocation Agreement

Parties: FPIC Insurance Group, Inc. and its subsidiaries

Effective:	December 15, 1998. Tenere Group Inc., became a party to the agreement effective December 30, 1999.
Terms:	Current federal income taxes are charged or credited to operations of the affected entity based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. The method of allocation between the companies is based upon separate return calculations on actual taxable revenue at prevailing rates. Intercompany balances are settled periodically.
Exception:	Intermed and Interlex are not clearly listed as parties to the agreement. The agreement was initially drawn up between FPIC Insurance Group and its various subsidiaries effective December 15, 1998, prior to the purchase of the Tenere Group, Inc. by FIG. Tenere Group, Inc. became signatory to the agreement effective December 30, 1999, after the FIG purchase. Since Tenere is the parent of Intermed and Intermed is the parent of Interlex, it is the Company's assertion that both Intermed and Interlex are to be included in the consolidated income tax returns of FIG. However, Intermed and Interlex are separate legal entities and not just components of Tenere. Therefore, it does not appear reasonable to infer that these companies should be a party to the tax allocation agreement. The Company should amend the agreement so that Intermed and Interlex are clearly stated as parties to the agreement. The amended agreement should then be filed with MDI for approval.

The amounts paid to and received from the parent, affiliates and subsidiaries during the period under examination under the above agreements were as follows:

	2002	2001	2000
Management Contract:			
Paid to Intermed by Interlex (Subsequently paid to ISI)	(716,785)	(568,585)	(617,340)
Tax Allocation Agreement:			
Paid to FPIC Insurance Group, Inc.	(360,018)	-0-	-0-
Net Amount (Paid) or Received	**$(1,076,803)**	**$(568,585)**	**$(617,340)**

Review of the Company's books and records indicate that FPIC Insurance Group, Inc. is providing some services, and shares costs with the Company for the following functions without a written agreement: auditing, actuarial and investment services, etc. The Company should reduce this arrangement into a written agreement and file the agreement with the MDI for approval.

The Company also has intercompany reinsurance agreements with FPIC and is a participant in the intercompany reinsurance pooling agreement with FPIC and other affiliated insurance companies. These agreements are discussed in detail in the Reinsurance section of this report.

FIDELITY BOND AND OTHER INSURANCE

Interlex Insurance Company is a named insured, along with the other members of the Tenere Group, Inc., on a financial institution bond with a limit of liability of $500,000 and a $2,500 single loss deductible. The fidelity bond coverage does not meet the amount suggested in the guidelines promulgated by the NAIC, which is between $700,000 and $800,000 in coverage. The Company should increase its fidelity bond coverage to meet the suggested NAIC amounts.

The Company is also a named insured on various other insurance policies of the Tenere Group and the ultimate parent, FPIC Insurance Group. These additional policies include, but are not limited to, employment practices liability, workers compensation, management liability, commercial property, and commercial general liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Interlex Insurance Company has no employees. Services are provided to the Company by employees of an affiliate, Insurance Service, Inc. (ISI) in accordance with the provisions of a management services contract that is explained in greater detail in the Intercompany Transactions section of this report.

ISI provides a variety of standard benefits to its employees, which include, but are not limited to, health and dental coverage, life insurance, short and long-term disability insurance, vacation and sick leave, a money purchase pension plan, a stock purchase plan, and a 401(K) profit sharing plan.

The Company appears to have properly accounted for its liabilities for employee benefits.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2002, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo, (Securities deposits). The funds on deposit as of December 31, 2002, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	$1,255,000	$1,541,403	$1,502,706

Deposits with Other States

The Company also has funds on deposit with the state of Florida. Those funds on deposit as of December 31, 2002, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	$250,000	$251,485	$249,778

Other

Pursuant to the provisions of a reinsurance trust agreement with the Company's affiliate, FPIC, the Company has funds on deposit for the benefit of FPIC in the event of the Company not fulfilling its obligations under the intercompany pooling agreement. Such funds on deposit as of December 31, 2002, were in the form of various securities having a total par value of $9,200,062. The encumbrance of these funds should have been reported on the Schedule of Special Deposits section of the Annual Statement. The Company is directed to report all securities pledged or otherwise encumbered in any form, on the Schedule of Special Deposits section of future Annual Statement filings.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

Interlex Insurance Company is licensed by the State of Missouri Department of Insurance under RSMo Chapter 379 (Insurance other than life), to write the business of property and casualty insurance. As of December 31, 2002, the Company was also licensed in Kansas and Florida and was admitted on a surplus lines basis in Illinois.

The Company specializes in writing professional liability insurance for lawyers and judges. Approximately 75 percent of the Company's direct premiums written in 2002 were written in Missouri.

As indicated in the Acquisitions, Mergers and Major Corporate Events section of this report, on October 3, 2002, the Company sold its entire legal book of business to an unaffiliated insurance company. In accordance with the agreement, Interlex stopped issuing new or renewal policies effective December 1, 2002, and under an accompanying non-competition agreement, the Company agreed not to market lawyers liability insurance in Missouri and Kansas for the period of October 3, 2002 through December 31, 2005.

Policy Forms & Underwriting
Advertising & Sales Material
Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a separate market conduct report. There has not been a market conduct examination of the Company. A cursory review was made of several market conduct related areas of the Company during the examination, and no material problems were noted.

REINSURANCE

General

The Company's reinsurance and premium activity during the period under examination are as follows:

Premiums:	2002	2001	2000
Direct Business	$2,775,099	$2,609,216	$2,421,368
Reinsurance Assumed:			
Affiliates	8,965,495	6,449,274	7,445,673
Reinsurance Ceded:			
Affiliates	(2,131,776)	(1,930,046)	(1,762,946)
Non-Affiliates	(643,323)	(679,170)	(608,690)
Net Premiums Written	$ 8,965,495	$ 6,449,274	$ 7,495,405

Pooling

Interlex Insurance Company is a participant in a reinsurance pooling agreement with three of its insurance affiliates, Intermed Insurance Company (Intermed), First Professionals Insurance Company (FPIC) and Anesthesiologists' Professional Assurance Company (APAC). Under the terms of the agreement, Intermed, Interlex and APAC cede 100% of premiums and losses, net of other reinsurance, to FPIC. FPIC then allocates to itself and the participating affiliates a pro-rata share of premium and losses based on each participant's proportionate prior year-end surplus to the total prior year-end surplus of the participants. The participation percentages for each of the pool members for the years under examination were as follows:

Participating Company	2002 Percentage	2001 Percentage	2000 Percentage
APAC	14.25%	13.68%	13.18%
FPIC	67.04%	67.15%	73.85%
Interlex	**6.39%**	**4.39%**	**4.32%**
Intermed	12.32%	14.78%	8.65%
Total	100%	100%	100%

The original effective date of the agreement was January 1, 1999, for FPIC and APAC, while Intermed and Interlex began participation on April 1, 1999. Effective December 31, 2001, the four participants elected to amend the effective date of the pooling agreement to January 1, 1999, for all participants.

Assumed

Interlex assumes premium from FPIC under the above described intercompany reinsurance pooling agreement. The Company does not assume any other business.

Ceded

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Interlex Insurance Company, along with the other participants of the intercompany pooling agreement, Intermed, APIC and FPIC (collectively unknown as the participants), is included on various reinsurance agreements covering the business ceded into the intercompany pool.

The participants have an excess of loss reinsurance agreement, effective January 1, 2002, with various domestic and non-domestic companies and Lloyd's syndicates. The agreement covers claims made and occurrence policies for all companies for calendar year 2002.

The agreement has different coverage limits and retention layers for each of the participants. As regards Interlex, the agreement has two layers. Under the first layer, the Company retains $500,000 any claim or occurrence, any one insured and the reinsurers assume the excess, up to $2.5 million. Maximum original policy limits are $1 million under the first layer. The second layer provides 100% coverage for policies with limits in excess of the allowable under the first layer. The Company retains $1 million any claim or occurrence any insured or $3 million in aggregate any one insured any one policy period, and the excess is indemnified by the reinsurers, limited to $4 million, any one insured, any one policy period. The maximum policy limit allowable under this layer is $5 million per occurrence and in aggregate per insured.

The participants have a casualty awards made excess of loss agreement with various Lloyd's syndicates, effective April 1, 2002, relating to claims involving extra contractual obligations and excess limits liability. Each participant retains $1.5 million ultimate net loss any one occurrence, and the syndicates participate in 90% of $10 million in excess of the retention.

Interlex has a retroactive aggregate excess of loss reinsurance agreement effective April 1, 1999, with FPIC for claims arising from policies written prior to the effective date and open or incurred but not reported as of the effective date. Pursuant to the terms of the agreement, FPIC's obligation is to indemnify the Company in respect of the ultimate net loss in excess of the Company's retention of $1 million up to a limit of $500,000. Premium for the coverage is $20,000, payable quarterly over the effective period of the agreement, which expires April 4, 2004. As of December 31, 2002, $14,000 in deposit premium had been paid by the Company, and no recoveries had been made under the agreement.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm, PricewaterhouseCoopers, LLP, of St. Louis, Missouri for all the years in the examination period.

Independent Actuary

Loss reserves of the Company were reviewed and certified by Ronald T. Kuehn, FCAS, MAAA, FCA, CPCU, ARM of Ernst & Young LLP, Philadelphia, Pennsylvania for all the years in the examination period.

Custodial Agreements

During our review of the Company's cash and investment accounts, it was noted that the Company's custodial agreements with SunTrust Bank did not meet all of the requirements as set forth in the NAIC Financial Examiners Handbook. The Company should amend or restate the custodial agreement with SunTrust so that it is in compliance with the NAIC requirements.

Loss and LAE Reserves

Due to the fact that the majority of the Company's loss reserves as of December 31, 2002, related to amounts assumed and ceded under the Company's intercompany reinsurance pooling agreement with its parent and other affiliates, the MDI did not obtain its own consulting actuary for the examination of Interlex. The MDI relied upon the actuarial analysis performed by the consulting actuary for the Florida Office of Insurance Regulation (FOIR) in their examination of the Company's parent, FPIC, as of December 31, 2002. The FOIR consulting actuary noted that reserves for FPIC were deficient. The consulting actuary's reserve estimates for amounts ceded to and assumed from the intercompany reinsurance pool were used to determine an estimated post-pooling deficiency amount for Interlex. Although the amount of the estimated deficiency for Interlex appeared to be immaterial compared to reserves taken as a whole, the Company should ensure that it continues to diligently monitor reserves and adequately reserves for loss and loss adjustment expenses in the future.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2002. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements". (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	LEDGER ASSETS	NON LEDGER ASSETS	ASSETS NOT ADMITTED	NET ADMITTED ASSETS
Bonds	$18,545,266			$18,545,266
Cash and short-term investments	2,532,902			2,532,902
Premiums and agents' balances in course of collection	75,531	$2,131,055		2,206,586
Premiums, agents' balances and installments booked but deferred and not yet due	389,598			389,598
Reinsurance recoverable on loss and loss adjustment expense payments		242,093		242,093
Federal and foreign income tax recoverable and interest thereon	128,125	404,934		533,059
Guaranty fund receivable or on deposit	18,495			18,495
Interest, dividends and real estate income due and accrued	228,331			228,331
Aggregate write-ins for other than invested assets (Deposit on retroactive reinsurance trust)	46,127		$46,127	
Total Assets	$21,954,375	$2,788,082	$46,127	$24,696,330

Liabilities, Surplus and Other Funds

Losses	$10,368,512
Reinsurance payable on paid loss and loss adjustment expenses	880,827
Loss adjustment expenses	3,249,890
Commissions payable, contingent commissions and other similar charges	10,576
Other expenses	37,343
Federal and foreign income taxes	186,466
Unearned premiums	2,785,408
Ceded reinsurance premiums payable	34,930
Payable to parent, subsidiaries and affiliates	459,010
Aggregate write-in for liabilities:	
Non-compete and non-solicitation agreement	122,241
Unearned finance charges	20,375
Total Liabilities	**$18,155,578**
Common stock	1,200,000
Gross paid in and contributed surplus	2,460,937
Unassigned funds (surplus)	2,879,815
Surplus as regards policyholders	**$6,540,752**
Total liabilities and surplus	**$24,696,330**

Statement of Income

Underwriting Income	
Premiums earned	$9,696,469
Losses incurred	6,215,442
Loss expenses incurred	2,759,811
Other underwriting expenses incurred	1,397,071
Total underwriting deductions	10,372,324
Net underwriting gain/(loss)	**(675,855)**
Investment Income	
Net investment income earned	718,791
Net realized capital gains or (losses)	237,576
Net investment gain or (loss)	**956,367**
Other Income	
Finance and service charges included in premiums	46,196
Miscellaneous income	318,717
Total other income	364,913
Net income before dividends to policyholders and federal income taxes	645,425
Dividends to policyholders	-0-
Federal and foreign income taxes incurred	546,484
Net income	**$98,941**

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2001	$5,728,769
Net income	98,941
Net unrealized capital gains or (losses)	164,787
Change in deferred income tax	(1,100,60)
Change in nonadmitted assets	644,579
Change in accounts payable to affiliate	13,736
Net change in surplus as regards policyholders for the year	**811,983**
Surplus as regards policyholders, December 31, 2002	**$6,540,752**

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Conflict of Interest (Page 13)

Conflict of interest disclosure statements were not completed for any of the years under examination. The Company should ensure that all members of the board of directors and officers of the Company complete a conflict of interest disclosure statement annually.

Acquisitions, Mergers and Major Corporate Events (14)

The Company sold its legal professional liability operations in October 2002, and stopped issuing new and renewal policies effective December 1, 2002. As part of the sale, the Company agreed not to market legal liability insurance in Missouri or Kansas until January 1, 2006. Given the expiration of the Company's active policies and the non-competition agreement, there are questions as to the long-term future of the Company. The Company should develop a long-term business plan and submit the plan to the MDI upon completion.

Intercompany Transactions (Page 16)

Intermed is paying all of the expenses incurred on behalf of itself and its subsidiaries by ISI and then receiving reimbursements from Interlex contrary to the terms of the management contract. The Company is directed to either operate in accordance with the terms of the management contract with ISI or amend the terms and file the amendment with the MDI.

Interlex and Intermed are not clearly stated as parities to the tax allocation agreement between FIG and its subsidiaries. Although, the Tenere Group, Inc., the parent of Intermed, became a signatory to the agreement in December 1999, Interlex and Intermed are separate legal entities and not just components of Tenere. Therefore, it does not appear reasonable to infer they would be parities to the tax allocation agreement. The tax allocation agreement with FIG should be amended so that Intermed and Interlex are clearly stated as parties to the agreement. The amended agreement should then be filed with the MDI for approval.

FPIC Insurance Group, Inc. is providing some services, and shares costs with the Company for the following functions without a written agreement: auditing, actuarial and investment services, etc. The Company should reduce this arrangement into a written agreement and file the agreement with the MDI for approval.

Fidelity Bond (Page 19)

The Company's fidelity bond coverage of $500,000 does not meet the amount suggested in the guidelines promulgated by the NAIC, which is between $700,000 and $800,000. The Company should increase its fidelity bond coverage to meet the suggested NAIC amounts.

Statutory Deposits (Page 20)

Pursuant to the provisions of a reinsurance trust agreement, the Company has funds on deposit for the benefit of FPIC, in the event of the Company not fulfilling its obligations under the intercompany reinsurance pooling agreement. The encumbrance of these funds was not reported on the Schedule of Special Deposits. The Company is directed to report all securities pledged or otherwise encumbered in any form, on the Schedule of Special Deposits section of future Annual Statement filings.

Custodial Agreements (Page 25)

The Company's custodial agreements with SunTrust Bank did not meet all of the requirements as set forth in the NAIC Financial Examiners Handbook. The Company should amend or restate the custodial agreement with SunTrust so that it is in compliance with the NAIC requirements.

Loss and LAE Reserves (Page 26)

The FOIR consulting actuary noted that reserves for FPIC were deficient. The consulting actuary's reserve estimates for amounts ceded to and assumed from the intercompany reinsurance pool were used to determine an estimated post-pooling deficiency amount for Interlex. Although the amount of the estimated deficiency for Interlex appeared to be immaterial compared to reserves taken as a whole, the Company should ensure that it continues to diligently monitor reserves and adequately reserves for loss and loss adjustment expenses in the future.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Interlex Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CFE, Andy Balas, CFE and James Smith, examiners for the Missouri Department of Insurance, participated in this examination.

VERIFICATION

State of Missouri)
)
County of)

I, Mark Nance, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

____
Mark Nance, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this _______day of ________, 2004.

My commission expires: ________________ __________________________
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

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Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance